COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3558-01
Bill No.: #SB 765
Subject: Business and Commerce; Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: January 26, 2010
#Correct bill number

Bill Summary: This proposal creates a tax credit for equity investments in qualified Missouri businesses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	($63,561)	($71,751)	($73,903)
Total Estimated Net Effect on General Revenue Fund*	**($63,561)**	**($71,751)**	**($73,903)**

* **The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government*	**$0**	**$0**	**$0**

* **The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the proposed legislation creates an Equity Investment Tax Credit by transferring $2 million of unused tax credits from the Land Assemblage Tax Credit Program. It also defines Qualified MO business as a manufacturing business which must create no less than 20 net new jobs and offer health insurance.

DED's Business and Community Services (BCS) division would require one additional FTE to administer the Equity Investment Tax Credit program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs associated with the FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel. The cap for this new tax credit is $2 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined. DED assumes the cost for the new FTE would total roughly $70,000 per year.

Oversight assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly $6,000.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the bill proposes a tax credit for investors making equity investments in qualified early stage Missouri companies located in distressed communities. The tax credit is equal to 50% of the investor's equity investment in the business. The total amount of tax credits available for this program is $2 million per year. This amount is available only if DED fails to authorize at least $8 million of Distressed Area Land Assemblage Credits.

This proposal could therefore increase tax credit issuances and redemptions by up to $2 million, thereby lowering general and total state revenues by this amount. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues.

ASSUMPTION (continued)

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

DIFP state they will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

In response to a similar proposal from 2009 (SB 193), officials from the **Department of Revenue (DOR)** assumed the proposal would not fiscally impact their agency. Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished utilizing 1 existing CIT III for 2 months for system modifications to MINITS and 3 existing CIT III for 1 month for system modifications to COINS, Café, and E-file. The estimated value is $22,205.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Oversight assumes the proposal would earmark any unused Distressed Area Land Assemblage tax credits ($10 million annual cap per DED) to the new tax credit for equity investments in qualified Missouri businesses program. According to DED's Tax Credit Analysis, the Distressed Areas Land Assemblage tax credit has yet to issue or redeem a tax credit. DED's projection for FY 2010 and FY 2011 are for issuances of $10 million each year. <u>Therefore, this proposal could increase tax credit issuances by $2 million annually by a transfer to the new program created by this proposal.</u>. **Oversight** will range the fiscal impact of the tax credits for equity investments in qualified Missouri companies from $0 (no tax credit issuances and/or redemptions) to the annual limit of $2 million.

ASSUMPTION (continued)

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 85 percent to 106 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 95 percent of tax credits issued. Therefore, under this proposal, if $2,000,000 of credits are issued under the new program, Oversight would assume $1,900,000 (95%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Savings - Distressed Areas Land Assemblage (to new program) - Section 99.1205	$0 to $2,000,000	$0 to $2,000,000	$0 to $2,000,000
Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($18,775)	($23,206)	($23,902)
Expense and Equipment	($8,983)	($4,293)	($4,421)
Total Costs - DED	($63,561)	($71,751)	($73,903)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - Tax Credit for equity investments in qualified Missouri companies (Section 348.548)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($63,561)**	**($71,751)**	**($73,903)**

FISCAL IMPACT - State Government (continued)	FY 2011 (10 Mo.)	FY 2012	FY 2013
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for this program could be fiscally impacted by this proposal.

FISCAL DESCRIPTION

This proposal authorizes the Department of Economic Development to issue up to two million dollars in tax credits annually to encourage equity investments in qualified Missouri manufacturing businesses. Qualified Missouri businesses must be a manufacturing business, in need of venture capital, which will base its operations from an existing facility located in a distressed community. Such business must create at least twenty new jobs, offer health insurance to all of its full-time employees, and pay at least fifty percent of such health insurance premiums. Investors who make equity investments in a qualified Missouri business may be issued a tax credit equal to fifty percent of the investment. Tax credits authorized under this act can be carried forward for up to five years or sold.

No more than one million five hundred thousand dollars in tax credits can be issued annually for investments made to any one qualified Missouri business. If in any year, the number of claims for tax credits exceed the amount available the department will issue the tax credits on a pro rata

FISCAL DESCRIPTION (continued)

basis to all applicants entitled to receive tax credits in that year. Any amount of tax credits which applicants are entitled to receive on an annual basis and are not issued due to the limitations will be carried forward for the benefit of the applicants to subsequent years. Qualified Missouri businesses, for which investment tax credits are issued, which fail to comply with the provisions of this act within seven years of tax credit issuance will be forced to repay the amount of tax credits issued to investors.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Office of Administration - Budget and Planning
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration

Mickey Wilson

Mickey Wilson, CPA
Director
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